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REPORT

OF

THE COMMITTEE

ON WAYS AND MEANS

ON THE

*Finances of the State.*

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ANNAPOLIS:  
THOMAS J. WILSON.  
1862.



## R E P O R T .

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The committee on Ways and Means, to whom was referred so much of the Governor's Message as relates to the finances of the State, respectfully report:—

That their task would scarcely have been a light one, if their only duties had been to examine the various sources of revenue, to ascertain the receipts and expenditures of the State, to devise remedies for those defects in the law which have hindered the prompt and efficient collection of the public dues, and to insist upon the rigid enforcement of all those provisions which previous Legislatures have made in order to replenish and protect the Treasury. All this has been at least attempted, by measures which it would now be tedious to state in detail; and your committee do not doubt, that under a proper administration of the Treasury Department, the present sources of revenue will furnish ample means to meet all the ordinary expenses of the State, and the interest on our present public debt. It is true, that the expenditures for the last few years have considerably exceeded the income received, and that there would now be a deficiency in the Treasury, but for the margin of a balance to its credit, remaining over from the receipts of former years. But, without pretending to criticise the propriety of the various large appropriations which have been made by the last two Legislatures, it is enough to say, that there is no occasion now to follow the example set by them, and that the necessities of the time will, for some years to come, exact from us a far more rigid economy.

We have, also, a right to expect—and we are confident that the expectation will not be disappointed—that all State officers concerned in the collection of any part of the revenue will be held to a more strict accountability than has lately been the case; and your committee believe they may give the assurance, that not only will there be a considerable increase in the current receipts of the present year and in that next succeeding, when compared with the same receipts for some previous years, but that heavy arrearages will soon be brought into the Trea-

surey. Not only is it the duty of the Comptroller, by the laws long existing, to sue all defaulting officers and debtors to the State,—a duty which has been strangely neglected of late,—but the present Legislature has, by joint resolution, peremptorily ordered the Comptroller to enter suits in all cases, within thirty days from the passage of the resolution. Your committee feel thoroughly assured, that the present Executive, and the Treasury officers, will perform in the most efficient manner all the duties confided to them.

The apprehension of a great increase of taxation has most naturally inclined the minds of our people to the retrenchment of all expenses not considered absolutely necessary; and your committee hope, that the bills already introduced by them will effect a considerable saving. At the same time, after the most careful and anxious examination of the subject, your committee have come to the conclusion, that it would be unbecoming to diminish, at this time, the established charities of the State, or to cut off from the public schools and academies, that assistance so long afforded them, and now more than ever needed, on account of the impaired ability of individual patronage. Besides, it has been ascertained by a reference to the various laws on the subject, that a considerable proportion of the States' subscription to the academies could not be withheld without a breach of faith on her part; as the means of individuals were contributed on the express condition named in those laws, that the State would also contribute. There are, doubtless, some of the academies, in regard to which there was no such contract; and if any of this class of institutions have been found not to answer the purposes contemplated, when the States' subscriptions were made, the delegates from those counties in which such academies are, have the information, not accessible to your committee, which will enable them to introduce bills for the repeal of the States' donations.

Your committee will now pass to the consideration of that topic, which has given them the most concern, and which is just now of the deepest interest to the Legislature, and to the people of the State.

On the 30th of June 1862, we must be prepared to pay to the United States our quota of Direct Tax, imposed by the act of Congress of August 5th 1861, which, after deducting the 15 per cent allowed by the act to the States assuming the collection of the tax, would amount to the sum of \$371,300. As no part of any tax imposed by this Legislature could be collected before that date, and as we cannot depend upon any surplus from our ordinary revenue, it will be necessary for the State to borrow the greater part, if not all, of the amount required. To authorize a loan is, therefore, the indispensable duty of the Legislature; but should no heavier Direct Tax be imposed by Congress than that already laid, there

would be neither difficulty nor embarrassment in procuring all the money we need. The interest on the Sinking Fund to accrue on the 1st of April and 1st of July next, amounting to about \$138,000, could be invested in the new loan, and the remaining \$233,300 could doubtless be obtained on the most favorable terms by the pledge of the Bank Stocks held by the State. Indeed, the loan negotiated outside of the Treasury, would in that case be but a temporary one, to be refunded within a year out of the proceeds of the additional State Direct Tax recommended by your committee; and after the present year, should the rate of the United States Direct Tax remain the same, our new tax would yield nearly, if not quite enough to discharge it, and any deficiency could be made up by the investments in our new loan of the constantly accruing interest of the Sinking Fund.

But your committee have not considered it safe, to assume that there will be no increase of the Direct Tax by the present Congress. It is true, that the indications now are, that much the greater part of the \$150,000,000, or \$200,000,000, to be annually raised by the United States Government to pay the expenses of the existing war, will be gathered by imposts, excises, and other indirect taxation. But it is probable, that the Direct Tax will be at least doubled, and that a clear annual sum of say \$750,000 will be required from us on this account. Indeed, your committee believe, that such an increase of the Direct Tax would be a most acceptable substitute for such excises as can be made effective sources of revenue only by frequent inquisitorial visits to the homes of our people; and even if Congress should determine against such increase of the Direct Tax, it is to be hoped, that the measure adopted by them will contain some provision, allowing any State an exemption from certain of the proposed domestic imposts, on paying a fixed annual sum in commutation.

It is moreover the obvious duty of the present Legislature, as far as lies in its power, to prevent the necessity for another special session, by providing for any contingency which is at all likely to occur. If its financial measures should be confined to raising the annual sum of \$371,300, now required by the act of August 5th 1861, and if Congress should, after the 10th of March next, make any serious increase of the Direct Tax, an extra session of this Legislature would be unavoidable. On the other hand, if a law is passed authorizing the Treasurer to issue a loan, based upon the proposed addition to our State Direct Tax, and sufficient to meet any increase of the demands of the General Government, now considered probable, and if, after all, no such increase should take place, then no injury will have been done, and no serious debt will have been incurred by the State. It would seem desirable also to establish in the very beginning, for the purpose of raising means to pay the United States Direct Tax, a system which

can be consistently adhered to, so long as the proceeds of such tax may be needed either during the prosecution of the war, or for paying the debt incurred in its prosecution.

Your committee were confident at the opening of the present session of the Legislature, that Congress would soon mature its plans for taxation, so that at a much earlier day than the present it would be known, how much of the revenue needed by the United States Government would take the form of Direct taxation, and how much, if any, of the indirect taxes might be commuted for by the States. It is evident, that in the absence of such knowledge, all plans proposed by your committee must be based upon conjecture in regard to the amount necessary to be raised. The duration of the tax depends, of course, upon the events of the future, and must remain an uncertain element in all our calculations. But it seemed of such great importance, that we should know how much we should be called upon to contribute directly as a State, to the General Government, before framing laws to provide for such contribution, that your committee have heretofore, from week to week, delayed taking into consideration any special plan; hoping that Congress, by some definite action, would relieve us of the embarrassment under which, unfortunately, we still labor, of assuming certain facts as the basis of our financial measures. Our session, however, draws rapidly to a close, and it is impossible longer to postpone the consideration of the subject. Such being the case, your committee have been obliged to assume a certain amount of Direct Tax, as that likely to be demanded of our State by the General Government, and also to fix a probable term for the duration of the tax. In doing so, they hope that both as to time and amount they have kept within limits of safety.

They have assumed, that the annual sum of \$750,000, or something more than double the amount called for by the act of August 5th 1861, will be exacted of our State in the year 1862 and the four succeeding years. Your committee do not believe that the war can be greatly protracted. The brilliant victories which have been achieved so recently, and in such rapid succession by the armies of the Union, give assurance that the end is not far distant. But immense outlays have already been made, and must still for a while be made, and vast debts have been incurred by the Government in this gigantic contest; so that a great part of the taxes now contemplated by Congress must be continued for a number of years to come. It is most probable that the various indirect taxes to be laid by Congress will be the last repealed, and that the United States Direct Tax will scarcely remain in force for a longer period than five years. If this conjecture should prove fallacious, it will be the duty of the Legislature to be elected in the autumn of 1865 to devise plans for raising the means necessary for 1867 and succeeding years.



Assuming, then, that we must provide the annual sum of \$750,000 for five years, the question now to be decided is, in what manner shall that amount be raised? As before asserted a loan outside of the Treasury must be made in order to meet the payment due to the United States Treasury on the 30th of June next. Shall the whole of the United States Direct Tax for the four succeeding years be paid within those years by the people of the State, or shall the amount, by means of a loan based upon a smaller rate of tax, be extended over a period of ten or twelve years? To pay the whole in each year as it fell due, would require an addition to the State Direct Tax of at least thirty cents in the one hundred dollars, which added to the levy now in force, would make our whole State Direct Tax forty cents in the one hundred dollars. If it were absolutely necessary to impose such a tax, your committee believe that the large majority of the people of Maryland would cheerfully submit to the exaction, for the sake of the great cause in support of which it would be laid. But there are cogent reasons for making our direct tax as light as possible, at present, if there is any method of obtaining part of the means required by a loan negotiated at reasonable rates. The city of Baltimore, from which about half of our revenue, direct and indirect, is derived, has during the convulsions of our civil war, suffered more severely than any other city in the loyal States. All her trade with the South and Southwest, together with the greater part of her trade with the West, has been cut off, and the collection of the debts due to her merchants all through the seceded States has been stopped; and the inevitable consequences have followed—the bankruptcy of mercantile houses formerly in high credit—prostration of almost every kind of business—the serious diminution of rents, dividends, and all forms of income—and ruinous depreciation in the value of real estate and other capital. The great cities North of us have derived pecuniary profits growing out of this war, which, in a great measure, and in some cases to the full extent have compensated for their losses sustained in connection with their Southern trade. Our own metropolis has had no appreciable share of these advantages. In the State at large, although crops have been fair during the past year, and prices of agricultural products have been good; yet the price of land and other farming capital has ruled so low, that no part of them could well be sold, except at serious sacrifice. This is not said by way of complaint, nor even to show that our State by such losses has already paid large contributions for the existing war, independently of what is to be imposed in the shape of United States and State direct taxation; for far greater losses could be cheerfully borne to save our National Government, and to redeem that permanent prosperity, which, so far at least as Maryland is concerned, depends entirely on the preservation of the Union. Attention is called to these facts,

solely as furnishing good reason for diminishing the present weight of taxation by spreading it over a period of ten or twelve years, instead of collecting it in half that time.

Your committee believe that this desirable result can be obtained; and that an additional levy of fifteen cents on every one hundred dollars worth of the assessable property of the State, made at this session, would, by the assistance of a loan not too large to be easily negotiable, furnish ample means to pay, during five years, the annual sum of \$750,000 for the United States direct tax and the interest on the loan, and to pay off the whole loan, principal and interest, before the 1st of January, 1874.

The tax of 15 cents on \$100 would yield, without abatement—and supposing no loss in collection—the sum of \$490,000 per annum. Thus:—

Levy on the basis of the assessment returned to the Comptroller by the Commissioners of the Counties and the Appeal Tax Court of Baltimore City—that is,	
say \$286,667,000.....	\$430,000
Tax on State and City Stocks.....	25,000
Tax on Capital of Incorporated Institutions.....	35,000
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	\$490,000
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But some deduction must be made for abatements and losses, considering, however, on the other side; the interest accruing on taxes not paid within the time prescribed by law. A very thorough examination of the Treasurers' and Comptrollers' Reports, from 1841 down to the present year, demonstrates the gratifying fact, that ultimately at least 95 per cent. of the direct tax levied by the State is paid into her Treasury. It is, therefore, a safe calculation, if we deduct now a trifle more than 8 per cent., which would leave, as the certain product of our new tax, \$450,000 a year.

It must be remembered, however, that it is not for several years after a tax has been first imposed that the full amount of one year's taxes comes into the Treasury. The receipts, as your committee have ascertained by a minute analysis of the Comptrollers' Reports for many years, are remarkably uniform in regard to the proportion of a year's tax, paid during the year of the levy, and in successive years thereafter. That analysis shows, that heretofore more than two-fifths of the direct tax, for the first time levied are received by September 30th of the same year; that in the second year more than three-fourths of a year's tax is received; in the third, about four-fifths; in the fourth, more than five-sixths; in the fifth, about six-sevenths; in the sixth about seven-eighths and after that, in each year, the full amount of a year's levy, less the allowance for abatements, and losses. Following the rule thus established, and assuming the ultimate loss to be even

8 per cent, it will be found, that we may expect, from the 15 cent tax now levied, in 1862 and to July 1863, \$490,000; from that time to July 1864, \$392,000; then to July 1865, \$408,333; to July 1866, \$420,000; to July 1867, \$430,000; and in each succeeding year \$450,000.

Supposing that the United States annual tax should be \$750,000, and should continue for five years, it is a mere matter of calculation to ascertain what amount must be derived from loans. It seems clear to your committee that the surest way of procuring a loan upon advantageous terms is, not to throw too large an amount upon the market; and fortunately the position of our State finances enables us by a very simple expedient to obtain at least half the amount which will be needed for five years to come, without borrowing outside of the Treasury Department itself—that is, by investing the increment of the Sinking Fund for that time in the proposed new loan.

The Sinking Fund on the first of January last was \$5,228,828, invested, with the trifling exception of \$154,550 of Baltimore city stock, in our own State stock and bonds. The whole debt of the State is \$14,885,167, bearing various rates of interest, but for the greater part 5 and 6 per cent; of this State debt the Sinking Fund itself holds \$5,074,278, and on that sum receives, out of the proceeds of the present State revenues, interest quarterly or semi-annually, in the same manner as other holders of the State stocks and bonds. This interest, as fast as it is received, is invested in the purchase of other State bonds and stocks bearing interest, thus operating constantly to diminish the amount of our debt in the hands of outside creditors; and when the whole of the State debt shall have been absorbed by the Sinking Fund, it will be at once obliterated. In another view, the Sinking Fund represents so much extinguished debt, by a fiction presumed to be still in existence, and furnishing a measure for the application in each year of continually increasing surplusses, received from taxation and other revenues, to the redemption of the State debt still outstanding. Our laws now most wisely provide that this interest of the Sinking Fund, or these surplusses of revenue, increasing in the ratio of compound interest, must be invested in the purchase of our own debt; which according to the other view, amounts to the application of the surplusses to the extinguishment of so much more of our debt.

But by whatever words the Fund may be described, it is an undoubted fact that its increment is a substantial part of the quarterly receipts of our Treasury; and that it may be made available for our relief at the present time is just as clear. It is perfectly obvious, that the purpose for which the Sinking Fund was established can be as fully carried out, its continued efficiency for the constantly increasing reduction of our State debt as certainly maintained, and all the requisitions of the

law in regard to its investment as strictly complied with, by applying its accruing interest to the purchase of the new State loan proposed by your committee, as if the same interest were invested in the State loans issued twenty five years ago; and the ultimate redemption of the principal will be provided for out of the proceeds of the additional tax.

The interest of the Sinking Fund in April and

July, 1862, will be.....	\$137,878
July, 1863, " .....	282,038
July, 1864, " .....	299,213
July, 1865, " .....	317,494
July, 1866, " .....	351,761
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	\$1,388,384
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Even assuming that the revenues of the State from the present direct tax and other sources will merely suffice to pay the ordinary expenses of the State and the interest on the present debt of \$14,885,167, during the next five years; though, your committee believe that, with proper attention, they should yield a considerable surplus—the amount to be borrowed outside of the Treasury Department, in the whole five years, would be little more than a million of dollars, and that in nearly the following proportions for each year:—

Before July, 1862.....	\$612,122
" " 1863.....	32,000
" " 1864.....	132,000
" " 1865.....	125,000
" " 1866.....	105,000
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	\$1,006,122
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To recapitulate:—

From the three sources named—the additional State direct tax of 15 cents in \$100, the investment of the accruing interest of the Sinking Fund, and the outside loans—we shall have the following amounts available:—

1st of July, 1862.....	\$750,000
" " 1863.....	804,038
" " 1864.....	823,213
" " 1865.....	850,827
" " 1866.....	876,761

which sums will pay the annual United States direct tax of \$750,000, and all interest on the amounts of the increment of the Sinking Fund, invested in the new loan, and on the loans obtained from outside parties.

Then, if the United States direct tax should cease, as we have the right to expect, the proceeds of our additional fif-

teen cent direct tax would pay off before the first day of January 1874, the principal and interest of all the loans proposed to be made in the course of the next five years, under the bill which has been reported by your committee. If, contrary to our expectation, the United States tax should be continued beyond the year 1866, the Legislature assembling in that year could make such additional provision as would be necessary to meet it.

If the Congress should treble the present United States tax, the provisions of our bill would secure the means necessary for the years 1862 and 1863, and the Legislature assembling in 1864 could adopt further measures in order to comply with the requisitions of the General Government.

Your committee scarcely deem it necessary to enter into any argument, to show that the Legislature has the Constitutional power to make such a loan as is now proposed.— But as some cavil may be made on this point by those, whose sympathy with the originators and supporters of the secession rebellion, naturally incline them to oppose every possible obstruction to the successful prosecution of the war on the part of the General Government, it will not be considered out of place in this report, to say a few words in answer to the objection which may be anticipated.

The twenty-second section of the third article of our State Constitution, a section which in its structure and language is scarcely creditable to the Convention that framed it,—imposes the most rigid restrictions on the power of the Legislature to contract loans, yet concludes by giving it power to “contract debts to any amount that may be necessary for the defence of the State.” The State of Maryland, under the Constitution of the United States, has no power to “enter into any treaty, alliance or confederation,” cannot keep on foot an Army or Navy, or make war against any foreign nation. We cannot be attacked or invaded without the hostile act being an assault on and an invasion of the United States; and the United States cannot be at war, or invaded, without danger to Maryland as a constituent inseparable part of the great whole; so that the defence of the one is necessarily the defence of the other; and it is manifest that to supply means to the United States Government for the prosecution of a war in which it is engaged, is an act strictly within the meaning of our State Constitution.

But the prosecution of the present war is also most intimately connected with our immediate safety, and even necessary to the protection of our soil itself from invasion. Had not the armies of the Union been a barrier to the hosts assembled in arms at no great distance from the National Capital, our State would have been converted into a desolated battle ground, and we should have shared those horrors which Virginia now suffers, to which Missouri was so long a martyr, and from

which Kentucky and Tennessee will soon be reprieved; horrors which would not be mitigated by the reflection, that they were brought upon us by an attempt to destroy that Union, which is the source of our prosperity, and should ever be the object of our devoted affection.

THOMAS DONALDSON,  
Chairman.

## A BILL

*Entitled, An act to amend the twenty-third section of the eighty-first Article of the Code of Public General Laws, relating to Direct Tax imposed on the Assessable property of the State.*

SECTION 1. Be it enacted by the General Assembly of Maryland, That the twenty-third section of the eighty-first Article of the Code of Public General Laws, relating to the Direct Tax imposed on the Assessable Property of the State, be and the same is hereby repealed, and the following section enacted in lieu thereof:

23. The County Commissioners in the several counties, and the Mayor and City Council of Baltimore, shall in the year eighteen hundred and sixty-two, and annually thereafter, impose a tax, for the use of the State, of twenty-five cents on every hundred dollars worth of assessable property within their respective jurisdictions, according to the valuation thereof.

SEC. 2. And be it enacted, That this act shall take effect from the date of its passage.

## A BILL

*Entitled, An act to provide means for the Defence of the State of Maryland, by raising an amount sufficient to pay the State's proportion of the United States Direct Tax, levied or to be levied for the purpose of suppressing rebellion and maintaining the integrity of the Union.*

WHEREAS, The Government of the United States is now engaged in a war forced upon it by the seditious and unlawful

acts of those who have attempted its overthrow by violence, and it is only by the vigorous and successful prosecution of that war, upon the part of said Government, that the State of Maryland can be protected from hostile invasion, and the lives and property of her citizens preserved from destruction: *And whereas*, it is not only the duty of said State, but it is also an act of self-defence on her part, to provide the necessary means for paying her proportion of the expenses of said war; Therefore,

SECTION 1. Be it enacted by the General Assembly of Maryland, That the Treasurer be and he is hereby authorized to issue, in the manner hereinafter prescribed, stock of the State of Maryland to an amount not exceeding two millions and a half of dollars, for a loan, to be called "The Maryland Defence Loan;" which stock shall be redeemable at the pleasure of the State, and until redeemed shall bear interest at the rate of six per cent. per annum, payable semi-annually, on the first day of January and July in each and every year.

SEC. 2 And be it enacted, That one million and a quarter of dollars of said stock shall be reserved for the investment of the interest accruing from time to time on the Sinking Fund of the State; and on the first day of January, April July and October, in every year, and at whatever other times any interest of the said Sinking Fund may be payable, or standing to the credit of the Treasurer as trustee of that Fund, the Treasurer shall issue to himself, as trustee of that Fund, certificates of stock, at par, to the amount of said interest so payable or so standing to his credit as trustee of said Fund, and, on the warrant of the Comptroller, shall pass the amount so paid for said stock to the general credit of the State Treasury, to be applied to the payment of the State's proportion of the direct tax levied, or which may hereafter be levied, by the Congress of the United States, to provide for the expenses of the war now carried on to suppress rebellion and maintain the integrity of the Union; and the stock so purchased from time to time out of the interest of the Sinking Fund shall be added to the capital of said Fund, and the interest thereon shall be paid semi-annually, and the principal ultimately redeemed out of the proceeds of the tax hereinafter particularly pledged for the payment of principal and interest of the whole of said Maryland Defence Loan; and until the accruing interest on the said Sinking Fund shall have absorbed by such investments the full amount of one million and a quarter of dollars of said loan, it shall not be lawful for the Treasurer to purchase any other stocks for the investment of the interest of said Fund, unless before said full amount is so absorbed it shall become unnecessary to provide by loan any part of the means required to pay the said United States direct tax.



SEC. 3. And be it enacted, That at any time, and from time to time after the passage of this act, the Treasurer shall for the best price that can be obtained, negotiate the sale of so much of the remaining one million and a-quarter dollars of said "Maryland Defence Loan," as may be necessary, in addition to the amount received or to be received from the sales made to the Sinking Fund, under the next preceding section, to provide means for the payment of the State's proportion, for the year eighteen hundred and sixty two, or any succeeding year, of the direct tax now levied, or which before negotiating said sale, shall have been levied by Congress, to pay the expenses of the present war; but no sale of any part of said loan shall be so made by the Treasurer, without the written approval of the Governor and Comptroller, in each case, ratifying the terms of said sale; and on the ratification of such sales respectively, certificates of stock shall be issued, and on payment being made therefor, delivered to the purchasers.

Sec. 4. And be it enacted, That if either in the year eighteen hundred and sixty-two, or in any succeeding year, it shall be deemed expedient by the Governor, Comptroller and Treasurer, or any two of them, to advertise for sealed proposals for taking any part of the said "Maryland Defence Loan," such advertisement shall be made by the Treasurer, in such manner and for such times as the said Governor shall prescribe; and after the time limited by said advertisement, the proposals received shall be opened by the Treasurer, in the presence of the Governor and Comptroller, and so much of the stock as may be necessary, shall be awarded to the highest bidders therefor, at the prices named in their bids respectively, and on payment being made therefor, certificates shall be issued as hereinbefore provided.

Sec. 5. And be it enacted, That the Treasurer is hereby authorized and directed, to receive from any person or bodies corporate, in payment for any part of the "Maryland Defence Loan," purchased by them under the provisions of this act any United States Treasury notes, bonds, or evidences of debt which at the time of said payment, shall be receivable by the United States for taxes and public dues.

Sec. 6. And be it enacted, That all payments made by or on account of the purchasers of the loan authorized by this act, shall be made to the Treasurer on the warrants of the Comptroller, and all certificates of the stock of said loan, including those issued to the Treasurer, himself as trustee of the Sinking Fund, shall be signed by the Treasurer and countersigned by the Comptroller.

Sec. 7. And be it enacted, That the additional direct tax of

fifteen cents on every hundred dollars worth of the assessable property of the State, imposed by the General Assembly at its present session, is hereby specially pledged for the payment of the loan authorized by this act, and the said tax is hereby, on the faith of the State declared irrepealable, until the principal and interest of the said loan shall have been fully paid.

Sec. 8 And be it enacted, That any of the chartered banks of this State, may purchase any amount of the loan authorized by this act to be issued, without regard so any limit heretofore prescribed by the laws of this State, relating to said banks; and in case any bank in which the State holds part of the capital stock, shall propose to take and shall be awarded any part of the said loan, the Treasurer is hereby authorized to pledge to such bank, as security for the payment of principal and interest of the part of the loan so awarded and taken, an equal amount of the capital stock of said bank so owned by the State, if the State shall hold so much of the capital stock of said bank.

Sec. 9. And be it enacted, That the State loan authorized by this act, shall be exempt from all State, city and county taxation.



